SAFEWAY STORES, INCORPORATED • ANNUAL REPORT • 1973

Quentin Reynolds W. S. Mitchell Robert A. Magowan

Highlights

		1973	1972
Operating Results	Sales	$6,773,687	6,057,633
	Income before provision for income taxes	157,317	168,364
	Provision for income taxes	71,046	77,308
	Net income	86,271	91,056
	As a percentage of sales	1.27%	1.50
	As a percentage of stockholders' equity	13.67%	15.81
	Per share of common stock	$ 3.35	3.55
	Dividends to company stockholders	38,640	34,636
	Per share of common stock	1.50	1.35
Financial Position	Working capital	$ 223,732	237,370
	Current assets per dollar of current liabilities	1.43	1.64
	Total assets	1,341,220	1,137,375
	Long-term notes and debentures	129,280	128,123
	Equity of common stockholders	656,244	606,305
	Per share of common stock	25.44	23.57
Other Statistics	Number of employees (at end of year)	117,221	105,613
	Number of stockholders of record (at end of year)	62,767	65,471
	Number of stores opened during year	143	142
	Number of stores closed during year	110	94
	Total stores at end of year	2,364	2,331
	Total square feet of stores at end of year[1]	46,480	44,844
	Average annual sales per store	$ 2,831	2,613
	Common Stock price range New York Stock Exchange—Low-High	27¼-44⅛	34-44¼

Note: Dollars are in thousands except per share figures. [1] In thousands.

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To Safeway Shareholders, Customers and Employees:

In 1973 we reached a new high in sales, but had a dip in net income caused largely by two significant but temporary occurrences—severe beef shortages in the third quarter, and year-end strikes in our California operations which affected some 500 stores.

Dollar sales totaled $6.77 billion, an increase of 12% over the previous year. Much of this was inflation but we did have gains in both number of customers served and total tonnage handled.

Consolidated net income came to $86.3 million, 5% less than 1972 but well above any other previous year. Earnings per share were $3.35, of which 22¢ represented investment tax credits. In 1972 the comparable figures were $3.55 and 21¢, respectively.

Dividend increases declared during the year, meeting the guidelines of the Committee on Interest and Dividends, raised the annual rate to $1.60 per share. This represents the 48th consecutive year in which the Company has earned a profit and paid dividends, extending back to our incorporation in 1926.

Much of the credit for continued sales momentum goes to our new store construction program. As explained in greater detail elsewhere in this report, our philosophy of upgrading physical facilities on a regular and continuing basis has resulted in 651 new stores during the past five years. This not only represents new business in areas not previously served but also new customers in areas where we have replaced obsolete facilities. In our building program we of course are taking note of slowdowns in residential construction in many regions and are concentrating in those areas where population support is evident.

Effective January 1, 1974 William S. Mitchell, President, assumed the additional duties of Chief Executive Officer, succeeding Quentin Reynolds who continues as Chairman of the Board of Directors. Robert A. Magowan continues as a Director and Chairman of the Executive Committee.

Other management changes during the year included retirements of three retail executives—C. A. Bradburn, Vice President and Regional Manager (U.S.), L. M. Pringle, Vice President and Division Manager (U.S.), and David Laub, Manager of our Toronto Division and a Director and Vice President of Canada Safeway Limited. All three have contributed significantly to the Company's growth during 128 combined years of service.

New Vice Presidents elected by the Board of Directors were: F. W. Bird, Peter A. Magowan, William H. Maloney, John L. Repass and Ralph C. Ward.

Steady growth continues in our overseas Divisions, now just over 10 years old. During their fiscal 1973 years these operations generated $328 million in sales with 122 stores. The building program remains on target, with plans for approximately 25 additional stores during the current year. Safeway now has about 10,000 employees in the United Kingdom, West Germany and Australia.

Our Canadian Divisions also had a good year, as detailed in the report. Consolidating the Canadian and overseas results, our combined international operations are making a significant contribution to Company growth, accounting for 18% of our sales and 28% of profits.

The energy situation concerns us, both as users of fuel and as responsible corporate citizens. A central task force is coordinating a program covering all of our U.S. operations, designed to achieve a 10% reduction in energy use (greater in some areas). Every store, plant, warehouse and office has developed specific step-by-step procedures for reducing the consumption of electricity, natural gas and fuel oil.

1974 will undoubtedly see a continuation of severe challenges which have been confronting the retail food industry, particularly those related to inflation and product shortages. Retail price controls not only have not controlled inflation but have created serious economic disruptions throughout the industry. Assuming there will be constructive changes in stabilization programs, we believe that efficient operators can stand to benefit from basic strengths in the economy. Two of these strengths, certainly, are continued stability of personal income levels and increased capital spending by business.

By careful attention to all the basics, we hope to continue to merit the headline statement on a recent New York Times article: "Safeway Grows in Spite of it All."

W. S. Mitchell
President and Chief Executive Officer

Quentin Reynolds
Chairman of the Board

Robert A. Magowan
Chairman of the Executive Committee

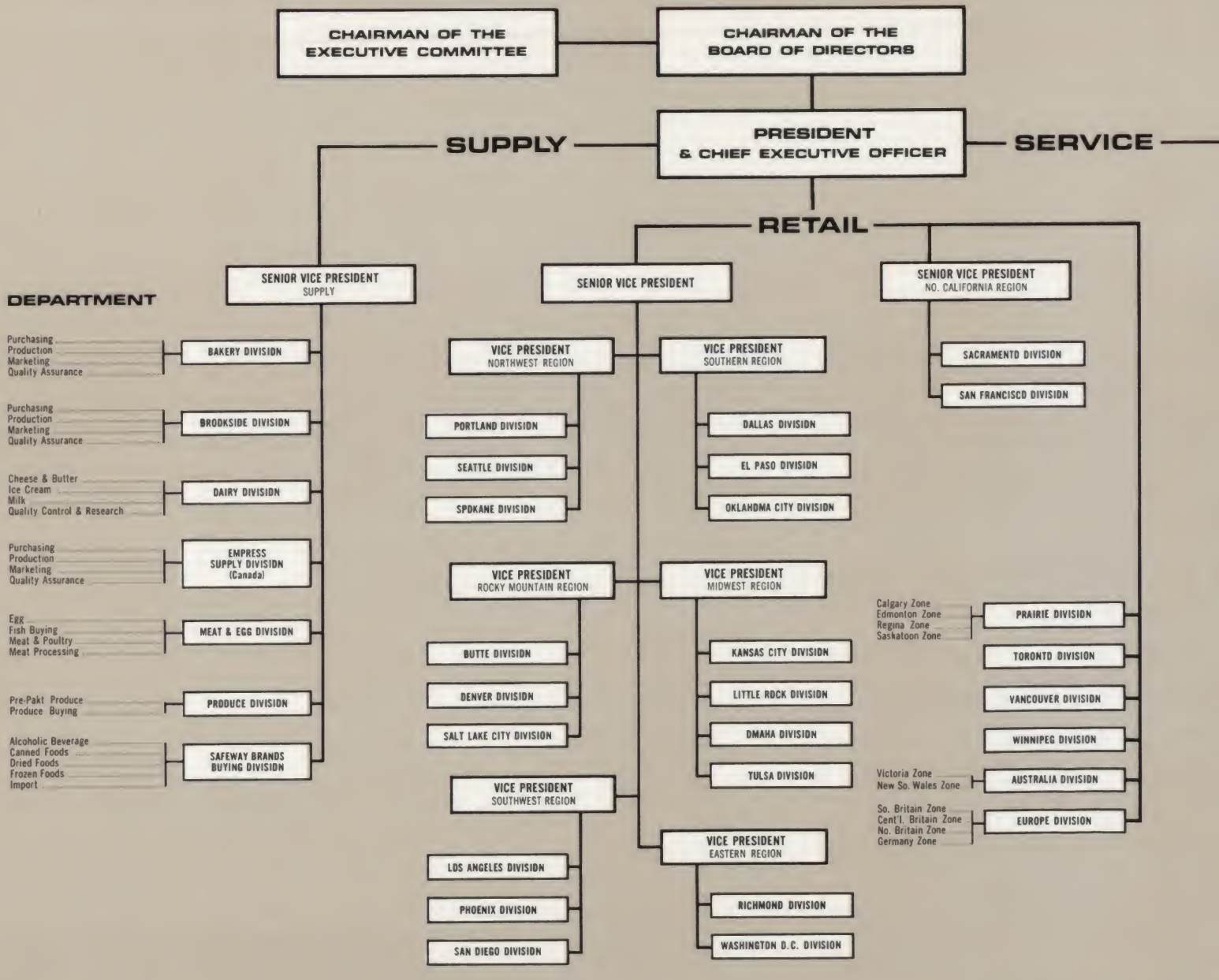
March 1, 1974

ORGANIZED FOR GROWTH

Safeway's organization is divided into three groups—Retail Divisions, Supply Divisions, and Service Divisions (see chart). This alignment developed early in our history and has served the Company well in growing from $30 million sales in its first year, to $1 billion in its twenty-first year, to $3.4 billion in its forty-first; and then doubling in just the last six years to $6.8 billion in 1973.

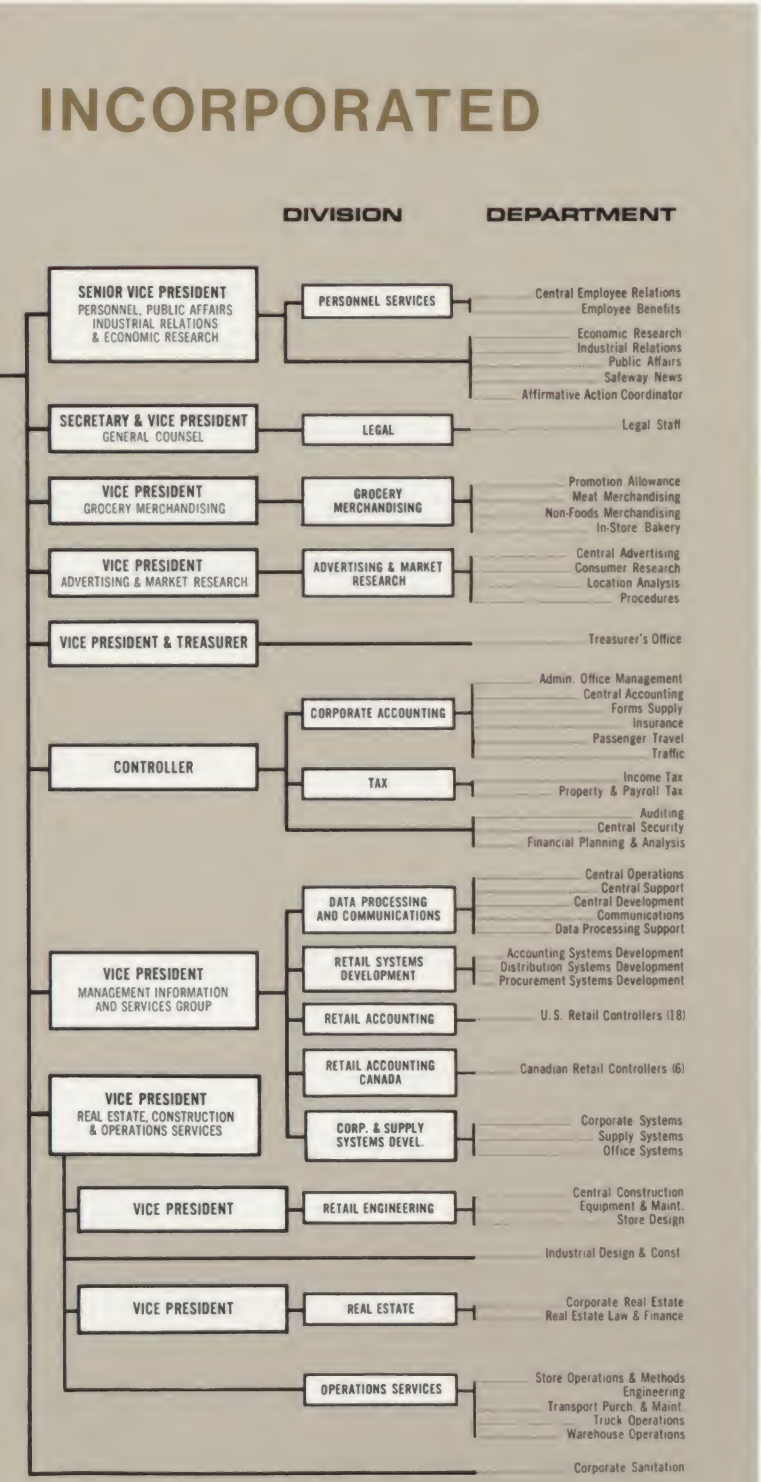
Safeway is one of the two largest food retailers in the world. We operate 2,364 stores in the U.S., Canada, England, Scotland, West Germany, and Australia. Altogether we employ about 110,000 people in our store, warehouse, plant, trucking and office operations.

ORGANIZATION CHART SAFEWAY STORES,



Retail Divisions

As can be seen on the chart in the boxes directly under the President, our Retail Divisions perform the primary function of the Company. They operate the stores, where our customers are served. The U.S. Divisions are grouped into geographical regions, each headed by a Regional Vice President. Canadian and Overseas Division Managers report directly to the President.



Each of our 26 Retail Divisions is virtually self-contained, the equivalent of a fairly large company in itself. Most Divisions operate more than 50 stores and the two largest Divisions have more than 200 stores each.

Each Division has its own distribution center for warehousing and trucking; each does its own buying and merchandising, and has its own staff departments for such functions as real estate and construction, accounting, advertising, employee and public relations, security, and industrial engineering.

Authority and responsibility are decentralized. The Retail Division Manager is a Vice President and key executive operating his entire Division. He has full power to act within general company policy guidelines, and is accountable only to retail line management. Supply and Service Divisions provide supplies, information, technical advice and training Company-wide, but do not have retail line authority.

The same decentralization philosophy applies to a single store unit; the Store Manager is responsible for running his entire store, including produce, meats, non-foods, and any other departments.

Supply Divisions

Safeway's seven Supply Divisions are engaged in basically two general activities: procurement, and manufacturing/processing.

Procurement includes efficient systems of assisting our Retail Divisions in their buying of perishables such as fresh meats, and fresh fruits and vegetables. It also includes procurement of Safeway Brand packaged products manufactured for us by others under our specifications and close supervision.

Manufacturing/processing covers those Safeway Brand products for which we have our own production facilities. In a special feature on page 10 of this report, our Senior Vice President in charge of supply discusses the Safeway Brands program and its importance to success of the Company.

Service Divisions

Service Divisions and Departments (see right side of chart) consist of administrative staff specialists who assist both Supply and Retail Divisions. Most are located at or near the Company's corporate headquarters in the San Francisco Bay Area.

Although Service Division people are a small proportion of Safeway's total employees, they represent an impressive range of professions and specialties. They include attorneys, engineers, accountants, writers, artists, personnel specialists, data processors, researchers and many more. They conduct marketing and store-site surveys; compile, analyze and report information; develop and test products, equipment, methods, and training programs.

In short, they provide our operations with specialized skills and information needed to operate successfully in today's complex society.

"Women are a great and largely untapped reservoir of potential management talent..."

A report by

Malcolm P. Grover, Sr. V.P.
Personnel, Industrial Relations, Public Affairs and Economic Research

As retail food merchants we have always had a high regard for womanpower.

Our customers are mostly women, so our success and even our existence depends on how well we please them. No one knows exactly, of course, but I have seen estimates that women control two-thirds of the nation's wealth, and buy three-fourths of all goods and services.

Women probably outnumber men among our stockholders. We don't keep a formal count of this, but I expect Safeway's proportion would be somewhat higher than the all-company average of about 50% women share owners reported by the New York Stock Exchange.

These things are not new—just the continuing facts of life in our business. What IS changing—and increasing most notably of late—is the participation of women as workers, professionals, supervisors and managers, in Safeway as in business generally.

Since the early 1950's women have increased from about 30% to nearly 39% of the U.S. working population, according to U.S. Census Bureau data. Almost half of all adult females are in the workforce today. The number of wives holding jobs outside the home has doubled since the early fifties, from 10 million to 20 million, and an additional 13 million single, separated, divorced or widowed women are working.

Today, in the 1970's, we find ourselves in a whole new era and climate for women in business. This has seemed to emerge rather suddenly, hastened no doubt by such developments as women's inclusion in civil rights legislation, changing life styles, and changing views of the public which, of

Mae Barnhill, Southwest Regional Mechanical Engineer for Brookside Supply Division, is here shown reviewing equipment design and performance in one of the several food processing plants she serves.

Charlotte Black was named Assistant Treasurer by the Board of Directors at the start of last year. She has been a mainstay in the Treasurer's office for most of the years since joining Safeway in 1945.

course, includes business owners and managers.

The changes are deepseated and irreversible, and we believe their impact on business life will be greater than generally realized. We further believe the impact will be all to the good. Women are a great and largely untapped reservoir of potential management talent which can help us reach a greater economic growth and enrichment of life than we might ever attain otherwise.

Safeway has long employed a high proportion of women. Last year, about a third of our U.S. store workforce was female. These women (over 22,000) were working in our stores at hourly pay rates identical to those for men.

Our Company took the initiative back in 1971 in voluntarily eliminating the two-tier pay structure for grocery clerks in all areas where it existed. We did it with a letter to the unions involved, advising them that we were reclassifying our clerks to make all of them all-duty, all-purpose clerks. All would thereafter receive the higher all-purpose rates of pay and would be known in the Company as "food clerks."

We would like to be further along on promoting women into management positions, and are working at it. For example, in 1973 we increased by approximately 50 the number of women having supervisory responsibility in our Retail Divisions (see photos).

Putting women into store manager jobs is one of our major objectives. This position is a prerequisite to higher management jobs in the retail line. The stepping stone to it is Assistant Manager, and we appointed nine women to that position last year. We also have twenty-eight women in our Retail Management Training Program preparing for store management.

Backstage in Division and Company headquarters, the work women do is prodigious. We could not run our business without their essential contribution, and in many positions their responsibilities are large. We are increasing the number of women in supervisory and management positions.

There is no denying the long history of resistance to women in business. But the popular concept of the liberated woman beating on the door of management and being denied entry just isn't so today. Quite the contrary: Safeway welcomes qualified women as candidates for any job in the Company.

I am convinced that a large share of these potential executives are already in our organization. Our main challenge now is to identify and develop those women who have the necessary qualifications for management and a willingness to make the commitment.

Ultimately the role women play will be up to them. The Company's job is to give them every opportunity to make the choice and succeed at it. Safeway management is definitely and affirmatively committed to that.

"The boss, she..." has long been a common concept in the home and family, and in the supermarket. I haven't the slightest doubt that it will become increasingly common throughout the business world in the years to come.

And that's good. Safeway welcomes it.

As a Safeway Store Manager (in Garland, Texas) Corinne Hickman is in charge of a multi-million-dollar-a-year business. Here she confers with two Department Managers about their sales plans for the week.

The photo above is of Sharon Cook, Assistant Manager of a Safeway store. She is one of a number of women appointed last year to this position which can lead to a Store Manager job.

Gwendda Banks (above) in 1973 was named Manager of the Consumer Research Department in the Advertising and Market Research Div. She had been a section manager previously.

Jacqueline Moore, a Safeway Consumer Consultant, was chosen an Outstanding Young Woman of America for 1973. Her certificate cites her accomplishments and service to the community.

Barbara Ellen Henderson was the first woman in her Division to be named a store Produce Department Manager. But the novelty is wearing off: eight others got this job in the U.S. in 1973.

We are privileged to present comments written especially for this report by two women of distinction in the professional world. Charlotte Montgomery, a columnist and Contributing Editor for Good Housekeeping *magazine, in 1973 received the annual "Headliner of the Year" award by Women in Communications, with a citation for "excellence in consumer reporting."*

This is the Way We Buy Our Food

Charlotte Montgomery

Big metal carts...big brown bags...big orders to fill a family's needs for a week—this is the way we shop today, in supermarkets that are big and getting bigger.

The consumer likes it this way. She (or he) hasn't been forced into huge stores. Quite the contrary. Her eager buying reveals the kind of store she wants as she seeks for more speed and efficiency—along with the widest selection.

She likes one-stop shopping, avoiding traffic and parking problems that mount if she must trot from place to place. She likes to see shelves filled with both familiar national brands and store brands. She judges on merit, buying what gives her the most satisfaction for her money.

Convenience foods please her: either complete, for restaurant-at-home eating, or semi-prepared. The housewife of today demands choice: easy-do foods for her busy days; ethnic, exotic foods for variety; basic ingredients for the meals she cooks from scratch.

She likes specialties that big markets offer. Not so long ago only city families could taste real delicatessen fare. Now the popular "deli" brings such delights all across the land, just as bakery departments do with fresh-from-the-oven goods.

Today's customer prefers comfortable surroundings—wide aisles, lights and color, pleasant assistance if needed, convenient store hours. Special services are appreciated, like check-cashing, meat cut to order, fresh produce sold both loose for personal selection and prepacked. A fine meat department is a must, as are quality fruits and vegetables, a gourmet section.

While all this is a lot to provide, some current trends are making extra demands on management. One is a growing interest in nutrition, which means more informative labels on present packages as well as new foods designed to meet nutritional needs. Another change is the increase in code dating on perishables, calling for careful product handling and rotation to prevent waste and spoilage. Unit pricing, which helps the shopper make the least-expensive buy, is still another service that must be kept up-to-date.

Underlying these current concerns is the constant problem of rising prices.

Price is a subject about which the consumer is constantly aware, but doesn't understand. Shoppers don't know how prices are set, the role of competition, or what a small profit the average supermarket makes on each dollar taken in at the check-out. (Currently, it is less than a cent on a dollar.)

Consumers need to be reminded that stores cost money and not just the stock on the shelves. Labor and shipping are up; overhead such as rent and taxes are all involved in the price stamped on one can of soup.

Americans know the way they want to buy food. While it's far from simple, the supermarket industry is trying to provide it.

Marina v.N. Whitman, Distinguished Public Service Professor of Economics at the University of Pittsburgh, served in 1971–72 on the Federal Price Commission, and more recently on the President's three-member Council of Economic Advisers.

Public Policy and the Food Industry

Marina v.N. Whitman

Right now economists around the globe, and in the United States in particular, are finding themselves very much concerned with the production, distribution and above all, the price of food. The reason? Suddenly new dimensions have been added to the changing face of American agriculture. Fundamentally, we have moved seemingly overnight from a world of surplus to a world of scarcity.

Partly, but only partly, because of the recent unexpected coincidence of poor crops all over the world, farm production has not kept up with increased demand attributable to the rapid growth of personal income at home and rising affluence and new customers abroad. In this situation the interaction of those familiar "scissors" of supply and demand has resulted in an unprecedented rise in the price of agricultural commodities at the farm and of food prices at the supermarket.

The retail food industry is highly visible and food prices have a significant impact both on the price level in general and on consumer sensibilities. It was inevitable, therefore, that food would receive primary attention in the government's program to curb inflation. My tentative judgment is that the state of the U.S. economy in general may be somewhat better today than if we had never undertaken the experiment with controls. Direct controls are far from the whole answer, though, and in the long run they are not the answer at all. In particular, where food is concerned, they may ultimately have a price-increasing effect, exactly the opposite of what is intended.

Controls which hold prices below the levels which competitive market conditions would otherwise generate are bound to create shortages in time, and this leads to the necessity for some means of allocation to substitute for the functions normally performed by prices in a free market economy such as ours. Shortages develop because controls discourage production at a time when demand is increasing.

The way to stabilize food prices to the consumer is by expanding the production and the efficiency of the farmer. But this will not happen overnight, because increasing food supplies takes time. Many actions along these lines have been taken over the past year but the results will not show up until months or, in some cases, years later.

For the longer run, a climate conducive to increased agricultural supplies requires a basic change in the framework which has underlain American agricultural legislation for the past forty years. This framework, which had its roots in the Great Depression, is based on the belief that the best way to support farm income is by restricting supply. But today we no longer have a surplus disposal problem. The stockpiles of the past have been replaced by domestic and foreign consumers bidding against each other for scarce agricultural commodities. The farm bill of 1973 went a long way toward recognizing this new world and taking it into account, but there are further changes which still need to be made.

Meanwhile, while scarcity persists, the supermarket will continue in the limelight as the focal point of consumer attention on food prices and food supplies. This portends growing challenges to the industry but also provides growing opportunities to demonstrate the merits of this remarkable distribution system.

RESPONSIBLE CITIZENSHIP

We are actively pursuing our various programs in support of corporate good citizenship. This includes informing consumers about food buying values and nutrition. It includes practicing and encouraging conservation of energy, the environment, and the ecology. It includes specific, affirmative action to assure equal opportunity for minorities and women in recruitment, hiring, training and promotion.

The Company received recognition for these efforts last year in the results of a survey conducted by the magazine *Business and Society Review.* The survey ranked Safeway number one among nine leading U.S. retailers who were compared on "social responsiveness." While it is gratifying to be top-ranked in such comparisons, we have no illusions about resting on our laurels.

In the area of consumer assistance, we have unit pricing in about 1,200 stores and plan to extend it to others. Open dating to insure freshness of our own brands of perishables is strictly adhered to—a Safeway practice for 35 years.

We are moving rapidly on nutritional labeling, and expect to have it on 500 Safeway Brand items by fall of 1974. The labels will show number of calories, amounts of protein, fat, and carbohydrates, and percent of Recommended Daily Allowance for vitamins and minerals. Safeway began putting nutritional information on labels in 1971, then held off awaiting FDA guidelines which were finalized in 1973.

In our advertising and through the stores, we distribute a great deal of educational information to consumers about food buying and nutrition, both on our own and in cooperation with government projects.

On the ecology front our recycling and anti-litter efforts continue. Empty corrugated boxes that were once burned, we now salvage through the use of balers in our stores and distribution centers. Safeway began this corrugated box and paper reclamation more than ten years ago, and we have expanded it until today the total from all our stores amounts to 300 million pounds yearly. That's enough to fill to capacity a train of freight cars 30 miles long! The paper mill makes this scrap back into corrugated boxes, on a conversion factor of 90% by weight. So only 10% is lost in the process—truly efficient recycling in support of the national effort to conserve natural resources.

Safeway is also very much a part of the national effort to conserve energy. Thermostats are down and lights dimmed or off in offices, stores, plants and warehouses. Our trucking fleets are being operated and scheduled to get merchandise moved with the least amount of fuel.

In another area of concern—equal opportunity and minority employment—our activity and resolve are undiminished. Minority persons in 1973 were 15.2% of our U.S. work force, compared to 10.7% in 1966.

Last summer Safeway agreed with "Rogues Gallery," a group aiding prison parolees, to market 10,000 boxes of firewood cut from frost-killed trees in the Berkeley, California hills, reducing fire hazards. All here shown are officials involved, visiting the site.

The lively-looking young people below surrounding the Safeway representative are job seekers at Spokane's 1973 Job Fair, sponsored by NAACP and several Spokane firms. Each year Safeway hires many of these Job Fair interviewees here and in other cities.

La Luz (left) is a Spanish-speaking publication featuring Hispano culture. Safeway last year hosted a luncheon in Washington for a presentation of the magazine's needs and aims to government and industry people. In another instance (above) we were able to help the Federally-funded New Mexico Nutrition Improvement Program. All 13 Safeway stores in Albuquerque displayed nutritional materials appealing especially to children.

"Know Your Meats" is a typical chapter heading in Safeway's new 32-page *Guidebook on Foods*. It was written for students of home economics on how to buy and use foods for best values and most appetizing, nutritious meals.

On the package above, the top view shows nutritional contents. The lower view shows the UPC computer code identifying the item for future automated checkout. We are making good progress on revising our S-Brand labels to include both.

The side of a Lucerne Milk carton makes a pretty good billboard. Why not use it to remind people of worthy causes in the community? So we did, and above you see the results: messages urging people to support charities, and to drive extra cautiously during times when "school's open."

This load of salvaged corrugated cardboard came from balers at the stores into the Division distribution center, and is here heading out for the paper mill. Material that was once burned is now recycled back into corrugated boxes, and only ten percent by weight is lost in the process. Safeway began this reclamation system with central balers more than ten years ago, changed largely to individual store balers within the last three years. Altogether the Company salvages approximately 150,000 TONS of this material for recycling each year.

"Safeway Brands are an extremely solid and healthy part of our business..."

A report by

Lorenzo N. Hoopes, Sr. V.P.
Supply Operations

Safeway was awarded a golden egg by L'Eggs Products Company last year for selling ten million pairs of L'Eggs Pantyhose.

Ten million pairs, since starting to stock them in 1970—I'll agree that's impressive. But it will have to take a back seat to another statistic: Our own Safeway Brand Pantyhose, introduced in 1971, has far outsold L'Eggs and all other brands in our stores.

Success of this kind is typical of Safeway's solid and extensive private label program dating back more than 35 years. It serves to illustrate again the principles that have built the whole program:

- There is no compromise on standards; quality is strictly controlled, and must equal or exceed that of competitive brands.
- Safeway Brands save promotional and other expenses, and the saving is shared with our customers in the form of a lower price.
- Products, plants and equipment are kept up to date, and innovation is encouraged.
- We are not a "private label house" but offer our customers a choice of either Safeway Brands or the popular advertised brands.

Safeway manufactures or procures some 3,000 different items under our own brands, to meet the varying requirements of all our retail divisions. Approximately half of these items will typically be stocked in any one area. They account for about one-fourth of our total sales.

We operate our own milk plants, bread plants, ice cream plants; we roast and pack our own coffee, manufacture jams and jellies, detergents, soft drinks, luncheon meats, vegetable oils, and other products.

Many more items, such as canned fruits and vegetables, frozen foods, paper products, health and beauty aids, wines and spirits, are manufactured for us by others to our specifications and under our close supervision.

The program encompasses approximately 125 Safeway manufacturing and processing plants and 50 buying offices.

Frozen foods, a fast-moving category for years, are increasingly popular with job-holding wives and other busy women. They especially favor pre-prepared, ready-to-serve dishes. At left are new frozen items (Safeway's Bel-air brand) introduced in 1973. How about some Potatoes O'Brien, or San Francisco Sour Dough French Bread?

The young lady at right is doing what many customers have done throughout 1973; that is, selecting high quality, reasonably-priced Safeway Brand panty hose of perfect fit, thanks to the color chart showing correct size based on height and weight. This item is a notable success, with sales in the millions of pairs during 1973.

More than 8,000 people are involved.

Private labels are growing in popularity today. Throughout the food industry their share of market has increased significantly in just the last five years. Some economists suggest that this may be at least partly because consumers are better informed and more sophisticated, and are seeking the best values regardless of brand. People whose budgets are squeezed appreciate the savings.

It is a good time to be strong in private labels, and they are not something that can be created overnight.

Safeway Brands are an extremely solid and healthy part of our business, thanks to the foresight of Safeway's leaders years ago, and the highly talented and experienced people in our supply operations today. In Safeway operating areas our customers are well acquainted with the values represented by our brands such as Town House canned goods, Bel-air frozen foods, Lucerne dairy products, Mrs. Wright's baked goods, Edwards Coffee, and many others.

This is an unmatched resource that Safeway enjoys. We intend to nurture it and keep it strong, to the everlasting benefit of our company and our customers.

In the pastoral setting below is the Safeway Brands manufacturing complex at Denison, Texas, including an edible oils refinery and "finished products" operations producing a variety of products, among them margarine, dressings, peanut butter and salad oil.

"Strong growth requires a sustained high rate of new construction year after year..."

A report by

Philip G. Horton, V.P.
Real Estate, Construction and Engineering, Operations Services

I believe few people are fully aware of the scope and importance of Safeway's ongoing building program. Strong growth requires a sustained high rate of new construction year after year, for expansion in new areas as well as for renewal and growth in present operating areas. It includes both new and remodeled stores, and new and expanded warehouses and plants to supply them. Our building program is one of the main "secrets" of the Company's continued success and growth.

Looking back we see that in 1956 Safeway opened 93 new stores. In only one year since then have we opened fewer than 120 (117 in 1969).

In each of the last three years we budgeted more than $200 million for capital expenditures to keep our aggressive program moving. We opened 142 new stores in 1972, 143 in 1973, and have planned another 150 for 1974.

In the last five years we opened 651 new stores and closed 528 old obsolete ones for a net gain of 123, making our current total 2,364 stores as of fiscal year-end 1973. During this same period we also remodeled some 1,400 stores. More than 200 of these were expanded and completely redesigned both inside and out.

As a result of our building program, a third of all Safeway stores today are new (or remodeled to new store standards) within the last five years.

Another result is that we have maintained a strong growth rate in our expansion areas of Houston (26 stores as of year-end), Toronto (13 stores), and overseas (122 stores).

I want to bring out two points in particular. The first is that the average size of our new stores has continued to increase by about 1,000 sq. ft. per year. For all existing stores the average is 19,500 sq. ft.; for those opened last year it was 23,250 sq. ft.; and for those planned and in the pipeline it is 25,000 sq. ft.

The second point is that because the stores we are closing are only about half the size of those we are opening, the net gain in square feet of store floor space each year is substantial. In 1973 we opened 3.3 million feet of new space while closing 1.6 million feet of old.

Less visible, but just as essential, is that other part of our building program—constructing, expanding, and modernizing warehouses and plants to keep up with the growth at retail.

It has taken an impressive amount of construction over the years to provide distribution centers for each of our Retail Divisions. These are large, centralized complexes measuring warehouse space in terms of acres—each with its own trucking fleet. They are modern, efficient systems for large-volume distribution of foods and variety merchandise.

We are kept busy building new centers in new areas, and expanding and modernizing the plants and warehouses in areas long served. For example in 1972 we completed eight new warehouses and plants and expanded 17. Among them were a new grocery warehouse in Salt Lake City, new produce and meat warehouses in Phoenix, a distribution center in Australia, and a milk and ice cream plant near Dallas.

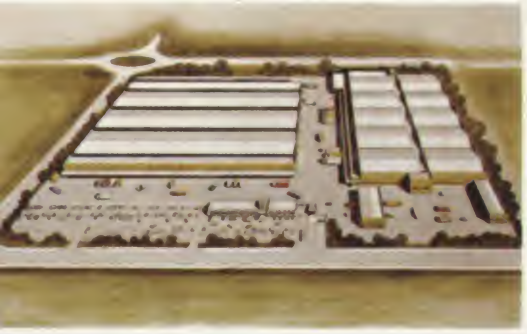
In 1973 we opened a new distribution center in El Paso, built a non-foods warehouse and office near Oakland, modernized our coffee plant in San Francisco, and opened a new meat warehouse in Calgary, Canada. Projects under construction this year include a new bakery plant in Denver, and entirely new distribution centers in Houston, Texas, and in the Midlands of England.

As builders, we periodically face obstacles such as tight money, increased costs, materials shortages, building site scarcity, zoning problems, shopping center complications, and so forth.

But the program keeps moving ahead, thanks to the Company's strong commitment and long experience, and the individual efforts of many talented people, both in the Divisions and at headquarters, in the fields of real estate, design, engineering and construction.

Fair weather or foul, we plan to keep building.

The colorful scene above is in England. This is the Harborne store in Birmingham, Warwickshire, opened in September 1973. It was one of 14 new stores opened last year in the United Kingdom, making the U.K. one of the fastest growth areas in the Company. Immediately below at left is a sketch of the new distribution center under construction on a 31-acre site at Warrington, in the Midlands of England. It will serve our stores with groceries, meats and other fresh perishables.



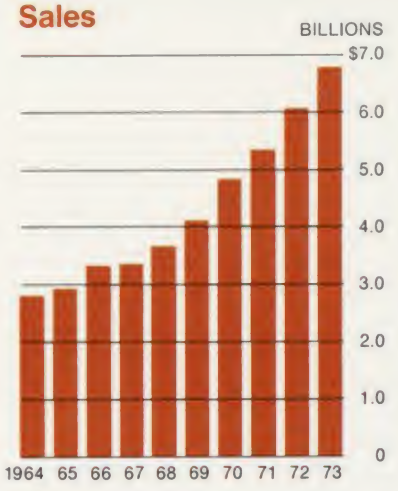
New equipment installed last year in our San Francisco coffee plant makes it one of the world's most modern. The display panel you see here electronically controls the product, quantities, temperatures and processes that are needed to produce exactly the right blend of properly roasted coffee. Also, sophisticated pollution control devices assure only clean air emissions from this plant.

The broad expanse of colorful shopping area below is an interior shot of the largest new Safeway store opened last year (see exterior view immediately above). This store is in metropolitan Denver, has more than 36,000 square feet of floor space overall, and exemplifies the Company's trend to larger stores. Special features include in-store bakery, deli with ready-to-eat gourmet foods, and an especially large housewares and variety department.

Financial Review

RESULTS OF OPERATIONS. For the eleventh consecutive year, current year sales increased over the prior year. 1973 sales increased 11.8% over 1972 to an all-time high of $6.8 billion. Table A shows sales by country.

Gross Profit of $1,317 million increased $106 million over last year but decreased as a percentage of sales from 20.0% to 19.4% in 1973. Operating and Administrative Expenses increased over last year but decreased as a percentage of sales from 17.1% to 17.0% in 1973. The dollar increase in Operating and Administrative Expense more than offset the dollar increase in Gross Profit and resulted in a decrease in Operating Profit to $166.5 million or



2.46% of sales in 1973 compared with $176 million or 2.91% last year.

Other Income and Deductions in 1973 increased by $1.3 million over 1972, principally because of higher interest expense on the higher levels of short-term borrowings.

Net income after taxes in 1973 therefore declined $4.8 million compared with the all-time high amount of $91.1 million in 1972. Net income as a percentage of sales was 1.27% in 1973 compared with 1.50% in 1972.

Net income per share in 1973 declined to $3.35 per share compared to $3.55 per share in 1972. During 1973, return on average stockholders' equity was 13.67% compared with 15.81% in 1972. The principal reasons for the decline in net income in 1973 from 1972 were strikes in six Operating Divisions, those in Northern and Southern California being most severe, and the beef shortage and other problems caused by price controls.

FOREIGN OPERATIONS. Sales and income of foreign operations in Canada and overseas continue to expand at a greater rate than the company overall. Canadian sales increased by 15% in 1973 and net income increased 7%. For the three overseas subsidiaries combined, sales increased by 40% and net income increased by 32%. The Canadian and overseas subsidiaries combined accounted for 18% of total consolidated Safeway sales in 1973 and for 28% of consolidated net income. The parent company's equity in earnings of subsidiaries was $24,134,000 in 1973 and $21,728,000 in 1972.

GROWTH IN FAST FOOD OUTLETS. During the year, Holly Enterprises, Inc., Safeway's joint venture with Holly Farms Poultry Industries, Inc., in the fast food, fried chicken business, expanded operations by opening one additional outlet in the Washington, D.C.-Virginia area and by purchasing five outlets from Mountaire Poultry Co. in the Little Rock, Arkansas, area. At year-end, there were a total of 25 units in operation.

TAXES ON INCOME. Provisions for Federal, Canadian and other Income Taxes amounted to $71.0 million in 1973 and $77.3 million in 1972. Such taxes represented 45.2% of income before provision for income taxes in 1973 and 45.9% in 1972. The provision for U.S. Federal Income Taxes was reduced by an investment tax credit of $5,680,000 or 22¢ per share in 1973 and by $5,300,000 or 21¢ per share in 1972. Such credits are based on placement in service of qualifying equipment in those years.

The provision for income taxes is shown below:

	1973	1972
Federal	$49,355,000	$56,790,000
Less investment tax credit	5,680,000	5,300,000
	43,675,000	51,490,000
Canadian and overseas	21,465,706	19,137,857
State	5,905,000	6,680,000
	$71,045,706	$77,307,857

The provision includes deferred income tax charges and (credits) provided for timing differences as follows:

	1973	1972
Accelerated depreciation	$ 6,045,000	$ 5,727,000
Insurance reserves	(3,487,284)	(2,279,000)
Small equipment purchases	(517,000)	(85,000)
Compensation provision	—	(1,056,000)
Other items	520,708	376,204
	$ 2,561,424	$ 2,683,204

Canadian and United States Corporation Income Tax Returns for all years prior to 1970 have been reviewed by taxing jurisdictions. Returns for 1970 and 1971 are under review and for 1972 and 1973 are subject to review. The U.S. Internal Revenue Service has proposed an assessment of $8.1 million for the years 1963 through 1969 based on a disallowance of the Company's U.S. Employee Retirement Plan contributions for those years. Although a formal report has not been received by the Company for the years 1970 and 1971, the Service has informally indicated there will be certain disallowances but no adjustment in either of the years in connection with the Company's contributions to the U.S. Employee Retirement

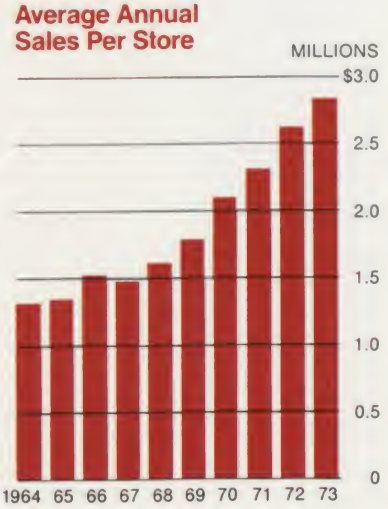


TABLE A—Sales by Country

(In millions U.S. $)	1973	1972	Percent Increase	Percent of Total 1973	Percent of Total 1972
United States	$5,553.6	$5,049.2	10.0%	82.0%	83.4%
Canada	892.2	774.3	15.2	13.2	12.8
United Kingdom	158.2	117.9	34.2	2.3	1.9
Australia	132.6	89.9	47.5	2.0	1.5
West Germany	37.1	26.3	41.1	.5	.4
Total Sales	$6,773.7	$6,057.6	11.8%	100.0%	100.0%

Plan. Any Retirement Plan contributions which may ultimately be disallowed would be carried forward as timing differences and claimed as deductions in future years. Management believes that adequate provision has been made for payment of taxes with respect to the returns that have been reviewed or which are subject to review and that any possible additional assessments in excess of those provided for will not result in any material adverse effect on stated earnings or financial position.

No provision has been made for income taxes which might be payable if accumulated earnings of Canadian and overseas subsidiaries were distributed to the parent company, since it is the present intention of management to reinvest such earnings permanently in foreign operations. The cumulative amount of such undistributed earnings on which the parent company has not provided for income taxes, if any, was $179,040,991 at the end of 1973. Should any distribution be required, any income tax payable would be substantially offset by foreign tax credits.

DIVIDENDS. The first two quarterly dividends for 1973 were 35 cents a share, and the last two quarterly dividends were 40 cents a share, making a total of $1.50 per share paid during 1973. This compared with a total of $1.35 per share in 1972 and $1.30 in 1971. Of total net income, 44.8% was paid out in dividends during 1973 versus 38.0% in 1972.

PROPERTY. Capital expenditures for property, plant and equipment, net of retirement and miscellaneous equipment sales amounted to $203 million during 1973 and $211 million during 1972. The major part of this expenditure was involved in the opening of 143 new stores and the completion of 7 new warehouses and plants. Expenditures were also made in 1973 for 81 major store remodels as well as for expanding 10 plants and warehouses.

At the end of 1973, we operated 2,364 stores averaging 19,700 square feet in size, with a total area of 46.5 million square feet. Table B shows the number of new stores opened during the past five years and the number and area of stores in operation in each country at the end of 1973. Provision for depreciation was $69,583,934 in 1973 and $62,495,071 in 1972.

TABLE B—Stores by Country

	End of Fiscal Year 1973		Number of Stores Opened During Past 5 Years					Opened Prior
	Million Sq. Ft.	Number of Stores	1973	1972	1971	1970	1969	to 1969
United States	39.0	1,971	109	111	91	98	94	1,468
Canada	5.4	271	14	17	12	19	15	194
United Kingdom	1.1	67	14	6	10	5	4	28
Australia	.8	40	5	5	6	3	4	17
West Germany	.2	15	1	3	2	3	—	6
Total	46.5	2,364	143	142	121	128	117	1,713

PAYABLES AND ACCRUALS. Payables and accruals consisted of the following:

	1973	1972
Accounts payable:		
Trade	$200,860,681	$177,053,399
Other	128,081,921	75,701,420
	328,942,602	252,754,819
Accrued expenses:		
Salaries, wages and other compensation	48,022,973	42,754,737
Taxes, other than income taxes	13,745,120	13,950,117
Rent, insurance and other	35,099,154	27,392,716
	96,867,247	84,097,570
	$425,809,849	$336,852,389

LONG-TERM DEBT. Notes and debentures payable at December 29, 1973 consisted of:

	Due After One Year	Current Maturities
4.65% term notes payable, unsecured	$ 15,000,000	$3,000,000
8¾% notes payable, unsecured, guaranteed by Canada Safeway Limited	20,000,000	—
7.40% sinking fund debentures, unsecured	65,000,000	—
Mortgage notes payable, secured	24,295,944	1,037,440
Other notes payable	4,984,053	922,496
	$129,279,997	$4,959,936

The above mortgage notes payable are secured by properties which are included in the balance sheet at their book value of $35,563,157.

During 1973 two mandatory semi-annual payments of $1.5 million each were made on the 4.65% notes, which also provide certain prepayment options at varying premium rates to maturity. Mandatory sinking fund payments for the retirement of the 7.40% debentures commence in 1978. Under agreement covering the 7.40% debentures, $173,159,117 of the retained earnings as of December 29, 1973 were free of restrictions for dividend payments

and acquisitions of common stock. Other restrictions applicable to both the notes and debentures include a limitation on the creation of additional funded debt.

Aggregate annual maturities of long-term debt for the next five years are:

	Notes & Debentures	Mortgage Notes
1974	$ 3,922,496	$1,037,440
1975	23,652,291	1,057,401
1976	3,559,393	971,036
1977	3,559,970	913,105
1978	6,659,077	827,220

CAPITAL STOCK AND ADDITIONAL PAID-IN CAPITAL. Capital stock as of year-end 1973 and 1972 consisted of 220,372 shares of 4% cumulative preferred, authorized and unissued. During 1973, the stockholders approved an increase in the number of authorized shares of common stock, par value of $1.66⅔ per share, from 27 million to 75 million. There are no present plans to issue any of the additional authorized shares for any purpose. Outstanding common stock amounted to 25,797,229 shares at the end of 1973, compared with 25,720,871 shares a year earlier. These are after deducting 45,983 treasury shares at the end of 1973 and 45,981 at the end of 1972.

The increase in Additional Paid-in Capital during 1973 of $2,119,023 and during 1972 of $3,689,147 consists of the excess proceeds over par value of shares issued under options exercised during the year.

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS. The Company and its Canadian subsidiaries have contributory, trusteed Retirement Plans which may be amended or terminated at any time, for eligible employees not covered by other plans to which the Company contributes. The assets of the trust funds are sufficient to fund vested benefits. Contributions charged to income were $4,620,019 in 1973 and $4,945,626 for 1972.

Contributions charged to income for Safeway's U.S. Profit-Sharing Plan were $4,905,997 in 1973 and $5,888,525 in 1972.

STOCK OPTIONS. The following summary shows the changes during 1972 and 1973 in qualified and restricted options granted to key employees to purchase shares of the Company's common stock:

	Shares	Option Price
Balance, beginning of 1972	388,530	$22.00-30.59
Granted, 1972	54,100	$36.25-38.81
Exercised, 1972	158,040	$22.00-30.59
Expired, 1972	3,485	$22.00-24.88
Balance, December 30, 1972	281,105	$24.88-38.81
Granted, 1973	112,500	$29.125
Exercised, 1973	76,360	$24.88-30.59
Expired, 1973	22,350	$24.88-30.59
Balance, December 29, 1973	294,895	$24.88-38.81

At the end of 1972 there were 113,835 unoptioned shares from the 1963 Plan available for granting. The 1963 Plan was superseded by the 1973 Plan which was approved by stockholders on May 15, 1973. The 1973 Plan authorized a total of 628,690 shares for option purposes and at December 29, 1973, 516,190 of these shares were unoptioned and available for granting.

COMMITMENTS. The Company has commitments under contracts for the purchase of land and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. Such unrecorded commitments amounted to approximately $83,757,000 at year-end 1973 as compared to $41,016,000 for 1972.

RENT EXPENSE AND LEASE COMMITMENTS AND INFORMATION. Safeway and its subsidiaries occupy primarily leased premises, which were covered by 2,961 leases at year-end. Of these leases, 2,364 are considered to be noncancelable, financing leases which means that the lease term covers at least 75% of the useful life of the property or the lease has terms which assures the lessor full recovery of his investment in addition to a reasonable return on such investment. Also, 1,560 of the total leases can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the landlords. There were no significant amounts of property, other than real property, under lease during 1972 and 1973.

A summary of rental expense for 1973 and 1972 follows:

	1973	1972
	(in Thousands - U.S. $)	
Financing leases:		
Minimum rent	$ 89,678	$85,266
Rent based on sales	3,852	3,235
Less sublease rentals	(4,193)	(3,979)
	89,337	84,522
Other leases:		
Minimum rent	13,330	9,342
Rent based on sales	522	411
Less sublease rentals	(558)	(478)
	13,294	9,275
Total rent expense	$102,631	$93,797

Minimum rentals on all leases in effect at year-end and rental amounts included therein relating to financing leases, other leases and sublease rental income were approximately as shown in Table C for the years or periods indicated.

The present value of minimum lease

TABLE C—Minimum Rental Amounts

(In thousands U.S. $)	Net All Leases	Financing Leases	Other Leases	Sublease Rental Income: Financing Leases	Sublease Rental Income: Other Leases
1974	$104,280	$ 89,287	$18,862	$2,152	$1,717
1975	103,492	88,910	18,162	2,104	1,476
1976	102,976	88,647	17,663	2,085	1,249
1977	102,471	88,026	17,326	2,046	835
1978	101,227	86,449	17,209	1,811	620
1979-1983	448,807	371,416	86,053	6,525	2,137
1984-1988	300,014	237,154	65,848	1,763	1,225
1989-1993	160,736	118,391	42,934	179	410
After 1993	97,998	44,923	53,139	43	21

FINANCIAL INFORMATION—FOREIGN OPERATIONS

	Canadian Operations[2]		Overseas Operations		Consolidated	
Balance Sheet[1]	**1973**	**1972**	**1973**	**1972**	**1973**	**1972**
Current Assets	$110,843	$ 97,088	$ 28,754	$ 21,239	$ 139,597	$ 118,327
Investment in Overseas Subs.	50,943	46,878	—	—	—	—
Other Assets	893	1,103	3,659	3,799	4,552	4,902
Property (net)	100,304	85,079	51,645	42,736	151,949	127,815
Total	$262,983	$230,148	$ 84,058	$ 67,774	$ 296,098	$ 251,044
Current Liabilities	$ 52,994	$ 44,533	$ 28,394	$ 17,789	$ 81,388	$ 62,322
Long-term Liabilities	23,395	22,744	4,653	3,050	28,048	25,794
Loan by Parent	—	—	22,953[2]	23,011[2]	—	—
Preferred Stock	4,153	4,514	—	—	4,153	4,514
Equity of Parent	182,441	158,357	27,990	23,867	182,441	158,357
Minority Interest	—	—	68	57	68	57
Total	$262,983	$230,148	$ 84,058	$ 67,774	$ 296,098	$ 251,044
Income Statement[1]						
Sales	$892,247	$774,267	$327,915	$234,114	$1,220,162	$1,008,381
Cost of Sales	720,923	620,565	268,571	191,486	989,494	812,051
Gross Profit	171,324	153,702	59,344	42,628	230,668	196,330
Operating and Administrative Expenses	136,373	119,516	47,909	35,099	184,282	154,615
Operating Profit	34,951	34,186	11,435	7,529	46,386	41,715
Other Income and (Deductions)	1,819	795	(2,422)	(1,445)	(603)	(650)
Income Before Taxes	36,770	34,981	9,013	6,084	45,783	41,065
Provision for Income Taxes	16,930	16,445	4,536	2,693	21,466	19,138
Net Income	$ 19,840	$ 18,536	$ 4,477	$ 3,391	$ 24,317	$ 21,927

[1] In thousands of U.S. dollars. [2] Includes Canada Safeway International Finance Corp.

commitments for financing leases was $777,003,000 at year-end and $752,045,000 at the end of 1972. The weighted average interest rates resulting from these present value calculations were 6.39% for 1973 and 6.29% for 1972. The ranges of rates used were from 3.00% to 9.25% in both 1973 and 1972.

If, instead of recording rental expense, all financing leases were capitalized, related assets were amortized on a straight-line basis and interest costs were accrued on the basis of the outstanding lease liability, the impact on net income would be a reduction of $5,673,000 in 1973 and $5,585,000 in 1972. Included in this computation for 1973 was amortization of $47,220,000 and interest cost of $51,378,000; for 1972, amortization was $45,304,000 and interest cost was $48,722,000.

CONTINGENT LIABILITIES. Various claims and lawsuits arising in the normal course of business are pending against the Company. To the extent that such contingent liabilities are uninsured or otherwise not provided for, General Counsel for the Company is of the opinion that the final outcome of such actions will not have a significant adverse effect on the financial statements at December 29, 1973.

During 1973, the Company's U.S. operations were subject to pricing restraints under Phases II, III and IV of the Economic Stabilization Act of 1970. The Company does not presently foresee any material adverse effect resulting from such controls.

SUMMARY OF ACCOUNTING POLICIES. The Company believes that the accompanying financial statements may be read with greater understanding by reference to the following concise descriptions of the accounting policies and procedures followed. These policies and procedures conform to generally accepted accounting principles and have been applied on a consistent basis.

Fiscal Year: The fiscal year for the Company's U.S. and Canadian operations ends on the Saturday nearest to December 31. Normally, each fiscal year consists of 52 weeks but every 5 or 6 years the fiscal year consists of 53 weeks in order to maintain the year-end on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30.

Basis of Consolidation: Consolidated financial statements include results of operations, account balances, and changes in financial position of all subsidiaries except one minor overseas subsidiary which is included in miscellaneous investments at the amount of equity in net book value. All inter-company transactions have been eliminated in consolidation.

Translation of Foreign Currencies: Current assets and current liabilities are translated at the rate of exchange in effect at the close of the period. Long-term assets and long-term liabilities are translated at historical rates. Net unrealized losses from foreign currency translation are charged to income currently. Net unrealized gains are deferred, except that these gains are credited to income to the extent of losses previously charged to income.

Revenues and expenses are translated at weighted average of exchange rates which were in effect during the year, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired.

In 1973, there was an unrealized foreign currency exchange gain of $640,706. Of this amount, there was a foreign exchange gain of $81,229 arising from the translation of the overseas subsidiaries' accounts which has been credited to deferred foreign currency exchange gain. $559,477 of foreign currency exchange gains arising from translation of the Canadian subsidiaries' accounts is credited to Other Income to offset losses previously charged to income. Accumulated deferred foreign currency exchange gains of $151,264 are included in payables and accruals in the December 29, 1973 balance sheet.

Translated at the rates of exchange in effect on December 29, 1973, long-term receivables would increase by $19,444 and long-term debt would increase by $212,380.

Net Income Per Share: Net income per share is determined by dividing consolidated annual net income by the average number of common shares outstanding during the year.

Provision for Income Taxes: The Company follows the generally accepted practice of providing for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the Company's use, for tax purposes, of accelerated depreciation and, for book purposes, accruing estimated expenses for insurance reserves and related items. These deferred charges and credits are amortized as the timing differences later reverse. The net effect of these timing differences is shown in the comparative summary of income tax provisions on page 14. The Company has consistently reduced current Federal tax provisions for investment tax credits in the year in which they arise, rather than spreading such credits over the productive life of the related equipment.

Depreciation: Depreciation is computed for financial report purposes on the straight-line method, which means that approximately equal amounts of depreciation are charged against operations each year during the useful life of each item or category of buildings, improvements or equipment. For tax purposes accelerated methods are used for depreciation.

The following are the principal rates of depreciation used for financial purposes during the year:

Store, warehouse and other buildings	2½ to 5%
Building equipment	5 to 10%
Furniture, fixtures and equipment	5 to 20%
Automotive equipment	12½ to 16⅔%
Installation costs	6⅔ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Such buildings and major improvements are amortized over the remaining period of the lease or the normal life of the buildings, whichever is less, and lesser improvements are amortized over the period of the lease or six years, whichever is shorter.

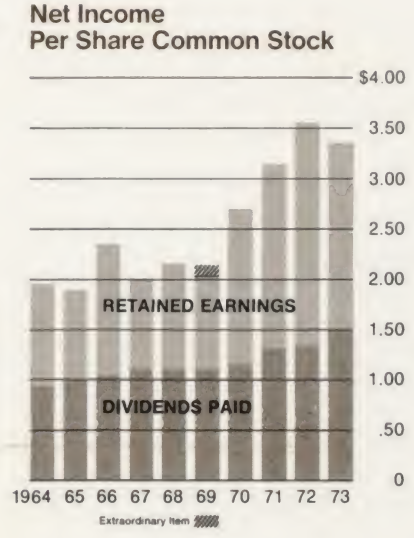
Amortization of Excess Cost of Investments in Subsidiaries: The original cost of certain subsidiaries was greater than their net book asset values at date of acquisition. Such excesses are being amortized and charged against income in twenty equal annual amounts of approximately $217,800 starting in 1970.

Inventories: As in prior years, year-end inventories in warehouse, raw materials and supplies have been valued by the lower of cost (first-in, first-out) or replacement market method; and substantially all store inventories by the retail inventory method. These inventories represent approximately 54% and 46% respectively, of 1973 year-end inventories.

Properties for Development and Sale Within One Year: This entry under Current Assets represents the original cost of land and improvements developed for use by the Company and for which commitments have been received for sale and leaseback during the following year.

Employee Retirement Plan: The Company's practice is to contribute the full normal cost and there is no unfunded past service liability.

Stock Options: Proceeds from the sale of stock issued under options are credited to common stock at par value and the excess of the option price over par value is credited to Additional Paid-in Capital.



Safeway Stores, Incorporated and Subsidiaries

Statement of Consolidated Income and Retained Earnings

For the 52 Weeks Ended December 29, 1973 and December 30, 1972

	1973	1972
Sales	$ 6,773,687,174	$ 6,057,633,445
Cost of Sales	5,457,096,677	4,846,246,810
Gross Profit	1,316,590,497	1,211,386,635
Operating and Administrative Expenses	1,150,037,347	1,035,115,899
Operating Profit	166,553,150	176,270,736
Other Income and Deductions		
Income		
Interest received	2,491,672	2,012,640
Earnings of unconsolidated foreign subsidiary	74,182	45,179
Sundry income	1,851,725	134,704
	4,417,579	2,192,523
Deductions		
Interest expense	11,857,013	9,559,702
Loss (gain) on disposition of fixed assets	1,196,641	(133,383)
Dividends on preferred stock of Canadian subsidiary	182,728	198,634
Amortization of excess cost of investments in subsidiaries	217,814	217,815
Minority interest in earnings of overseas subsidiary	10,481	7,311
Other charges	189,127	249,451
	13,653,804	10,099,530
Income before provision for income taxes	157,316,925	168,363,729
Provision for Federal, Canadian and other Income Taxes	71,045,706	77,307,857
Net Income (per share: 1973, $3.35; 1972, $3.55)	86,271,219	91,055,872
Retained Earnings at Beginning of Period	511,666,691	455,181,972
	597,937,910	546,237,844
Deduct		
Cash dividends on common stock (per share: 1973, $1.50; 1972, $1.35)	38,639,765	34,635,909
Additions resulting from stock acquisitions	(61,509)	(64,756)
	38,578,256	34,571,153
Retained Earnings at End of Period	$ 559,359,654	$ 511,666,691

See financial information included in "Financial Review"

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.

To the Board of Directors and Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheets of Safeway Stores, Incorporated and subsidiaries as of December 29, 1973 and December 30, 1972 and the related statements of income and retained earnings and changes in financial position for the 52 week periods then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 29, 1973 and December 30, 1972 and the results of their operations and changes in financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

2150 Valdez Street
Oakland, California 94612
February 28, 1974

Peat, Marwick, Mitchell & Co.

CONSOLIDATED BALANCE SHEET

As of December 29, 1973 and December 30, 1972

ASSETS	December 29, 1973	December 30, 1972
Current Assets		
Cash	$ 54,394,707	$ 71,146,911
Receivables	27,292,950	18,948,820
Merchandise inventories	591,543,250	472,580,068
Prepaid expenses	35,566,868	28,034,008
Properties for development and sale within one year	29,600,799	14,725,214
Total Current Assets	738,398,574	605,435,021
Other Assets		
Notes receivable, licenses and miscellaneous investments	13,393,747	11,922,308
Unamortized debenture and note issue expense	927,575	1,116,615
Excess of cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	3,484,935	3,702,749
	17,806,257	16,741,672
Property, at Cost		
Buildings	93,239,584	74,282,985
Leasehold improvements	131,544,414	111,797,375
Fixtures and equipment	722,671,495	650,366,451
	947,455,493	836,446,811
Less accumulated depreciation	417,125,152	371,681,583
	530,330,341	464,765,228
Land	54,684,480	50,433,066
	585,014,821	515,198,294
TOTAL	$1,341,219,652	$1,137,374,987

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks, short-term	$ 55,650,000	$ —
Current maturities of long-term notes	4,959,936	4,396,679
Payables and accruals	425,809,849	336,852,389
Federal, Canadian and other income taxes	28,247,213	26,815,667
Total Current Liabilities	514,666,998	368,064,735
Long-Term Liabilities and Reserves		
Notes and debentures payable	129,279,997	128,122,582
Deferred income taxes	28,891,557	23,380,134
Minority interest in capital stock and retained earnings of subsidiaries:		
Preferred stock of Canadian subsidiary	4,152,900	4,514,400
Overseas subsidiary	67,539	57,058
Reserve for self-insurance	7,916,672	6,931,339
	170,308,665	163,005,513
Stockholders' Equity		
Common stock	42,995,382	42,868,118
Additional paid-in capital	53,888,953	51,769,930
Retained earnings	559,359,654	511,666,691
	656,243,989	606,304,739
TOTAL	$1,341,219,652	$1,137,374,987

See financial information included in "Financial Review"

Safeway Stores, Incorporated and Subsidiaries

Statement of Changes in Consolidated Financial Position

For the 52 Weeks Ended December 29, 1973 and December 30, 1972

	1973	1972
Funds Provided:		
Net Income	$ 86,271,219	$ 91,055,872
Add charges (credits) to income not requiring funds:		
Depreciation and amortization	69,990,876	62,890,873
Increase in reserve for self-insurance	985,333	1,336,763
Loss (gain) on disposition of property	1,196,641	(133,383)
Increase in deferred income taxes	5,511,423	5,403,204
Funds provided from operations	163,955,492	160,553,329
Proceeds from sale of properties	47,513,067	70,224,662
Issuance of long-term debt	—	65,000,000
Increase in other long-term debt	5,944,942	17,531,985
Sale of common stock to employees	2,246,287	3,952,547
Increase (decrease) in properties for sale within one year	14,875,585	(2,445,897)
	$ 234,535,373	$ 314,816,626
Funds Used:		
Additions to property, net of retirements and miscellaneous equipment sales	$ 202,985,755	$ 210,986,428
Dividends to common stockholders	38,639,765	34,635,909
Decrease in long-term debt	4,787,527	4,616,969
Increase in other assets	1,471,526	1,698,843
Decrease in minority interest, net	289,510	292,633
	248,174,083	252,230,782
Increase (decrease) in working capital	$(13,638,710)	$ 62,585,844
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash	$(16,752,204)	$ 18,692,192
Receivables	8,344,130	13,168
Merchandise inventories	118,963,182	68,506,648
Prepaid expenses	7,532,860	5,988,864
Properties for sale within one year	14,875,585	(2,445,897)
	132,963,553	90,754,975
Increase (decrease) in current liabilities:		
Notes payable to banks	55,650,000	(9,100,000)
Current maturities of long-term notes	563,257	128,417
Payables and accruals	88,957,460	34,586,230
Federal, Canadian and other income taxes	1,431,546	2,554,484
	146,602,263	28,169,131
Increase (decrease) in working capital	$(13,638,710)	$ 62,585,844

See financial information included in "Financial Review"

Financial Highlights and Ten Year Summary

		1973	1972	1971	1970 (53 Weeks)
Operating Results	Sales	$6,773,687	6,057,633	5,358,837	4,860,167
	Income before provision for income taxes	157,317	168,364	155,127	140,462
	Provision for income taxes	71,046	77,308	74,948	71,570
	Net income	86,271	91,056	80,179	68,892
	As a percentage of sales	1.27%	1.50	1.50	1.42
	As a percentage of stockholders' equity	13.67%	15.81	15.38	14.44
	Per share of common stock	$ 3.35	3.55	3.14	2.70
	Dividends to company stockholders	38,640	34,636	33,200	29,315
	Per share of common stock	1.50	1.35	1.30	1.15
Financial Position	Working capital	$ 223,732	237,370	174,784	159,396
	Current assets per dollar of current liabilities	1.43	1.64	1.51	1.53
	Total assets	1,341,220	1,137,375	964,471	875,705
	Long-term notes and debentures	129,280	128,123	50,208	46,379
	Equity of common stockholders	656,244	606,305	545,867	497,048
	Per share of common stock	25.44	23.57	21.35	19.49
Changes in Financial Position (during year)	Funds provided from:				
	Operations				
	Net income	$ 86,271	91,056	80,179	68,892
	Charges to income not requiring funds				
	Depreciation and amortization	69,991	62,891	55,178	50,579
	Other	7,693	6,606	965	4,820
	Total from operations	163,955	160,553	136,322	124,291
	Sale of properties	47,513	70,225	82,131	39,116
	Issuance of long-term debt	—	65,000	—	20,000
	Decrease in working capital	13,638	—	—	—
	Other	23,068	19,039	8,594	13,621
	Total	$ 248,174	314,817	227,047	197,028
	Funds used for:				
	Additions to properties (net)	$ 202,986	210,986	173,206	143,939
	Dividends to stockholders	38,640	34,636	33,200	29,315
	Increase in working capital	—	62,586	15,388	18,640
	Other	6,548	6,609	5,253	5,134
	Total	$ 248,174	314,817	227,047	197,028
Other Statistics	Number of employees (at end of year)	117,221	105,613	97,463	96,760
	Number of stockholders of record (at end of year)	62,767	65,471	67,576	69,098
	Number of stores opened during year	143	142	121	128
	Number of stores closed during year	110	94	135	91
	Total stores at end of year	2,364	2,331	2,283	2,297
	Total square feet of stores at end of year[1]	46,480	44,844	42,752	41,769
	Average annual sales per store	$ 2,831	2,613	2,308	2,094
	Common Stock price range New York Stock Exchange—Low-High	27¼-44⅛	34-44¼	32⅛-40¼	22⅛-34⅜

Note: Dollars are in thousands except per share figures. [1] In thousands. [2] Excluding extraordinary gain in 1969 of $3,288,000, net of applicable

1969	1968	1967	1966	1965	1964 (53 Weeks)
4,099,647	3,685,690	3,360,880	3,345,187	2,939,043	2,817,569
108,610	115,526	100,128	117,793	95,150	97,875
57,305	60,465	49,235	58,045	46,965	47,895
51,305[2]	55,061	50,893	59,748	48,185	49,980
1.25	1.49	1.51	1.79	1.64	1.77
11.60	13.20	12.97	16.45	14.41	16.20
2.14[3]	2.16	2.00	2.35	1.89	1.95
28,036	28,036	27,975	26,039	25,549	24,102
1.10	1.10	1.10	1.02½	1.00	.92½
140,756	154,559	137,668	136,582	140,891	140,163
1.51	1.73	1.70	1.69	1.83	1.89
788,714	698,488	653,546	640,673	576,703	557,329
27,180	30,736	34,104	37,259	40,378	43,948
457,192	430,586	403,541	380,262	346,139	322,501
17.94	16.89	15.87	14.96	13.66	12.73
54,593[3]	55,061	50,893	59,748	48,185	49,980
46,638	44,158	41,643	38,750	37,350	34,178
5,418	5,990	(251)	6,025	5,535	3,351
106,649	105,209	92,285	104,523	91,070	87,509
45,010	49,389	39,191	32,112	41,451	44,602
—	—	—	—	—	30,000
13,803	—	—	4,471	—	—
23	—	19,779	412	11,972	8,924
165,485	154,598	151,255	141,518	144,493	171,035
129,089	103,019	117,311	101,766	90,558	98,885
28,036	28,036	27,975	26,039	25,549	24,102
—	16,891	3,086	—	728	19,986
8,360	6,652	2,883	13,713	27,658	28,062
165,485	154,598	151,255	141,518	144,493	171,035
91,532	83,655	78,000	74,798	69,248	68,804
73,193	72,793	73,851	72,609	66,651	58,100
117	123	134	168	177	186
98	119	117	113	139	136
2,260	2,241	2,237	2,220	2,165	2,127
40,169	39,033	37,850	35,402	32,951	30,795
1,782	1,612	1,475	1,514	1,349	1,322
23½-30¼	23¼-31¼	21⅜-28⅛	23⅝-31½	30⅛-42¼	28-37¾

income taxes, equal to $0.13 per share. [3] Including extraordinary gain in [2] above.

SAFEWAY'S CORPORATE OBJECTIVES

To make Safeway stock an increasingly profitable investment for our shareholders.

•

To practice responsible citizenship in the conduct of our business, and in community and social relations.

•

To satisfy increasing numbers of customers, at a profit sufficient to assure the continuing healthy growth of the Company.

•

To provide attractive, convenient stores staffed with courteous employees, and stocked with the products customers want.

•

To be known for superior perishables—meats, produce, dairy products, and baked goods.

•

To operate efficiently at the lowest costs consistent with quality and growth.

•

To be alert to new ideas, opportunities, and change.

•

To strengthen our organization by continuous and systematic training and development of employees and managers.

•

To offer our employees responsibility, challenge, and satisfying rewards for accomplishment.

Safeway Stores, Incorporated

EXECUTIVE COMMITTEE

Robert A. Magowan
Chairman
Ernest C. Arbuckle
J. G. Boswell II
Charles de Bretteville
Roger D. Lapham, Jr.
Merrill L. Magowan
W. S. Mitchell
Quentin Reynolds

DIRECTORS

Quentin Reynolds
Chairman of the Board

Ernest C. Arbuckle
Chairman of the Board
Wells Fargo Bank

J. G. Boswell II
President and Director
J. G. Boswell Company

Henry B. Clay
Senior Vice President

Charles de Bretteville
Chairman of the Board
and Chief Executive Officer
The Bank of California, N.A.

Malcolm P. Grover
Senior Vice President

Lorenzo N. Hoopes
Senior Vice President

Roger D. Lapham, Jr.
Director and Senior Vice President
Corporate Finance, of Frank B. Hall & Co., Inc. (New York)

Merrill L. Magowan
A Sales Manager of
Merrill Lynch, Pierce,
Fenner & Smith Incorporated
San Francisco

Robert A. Magowan
Chairman of the Executive Committee

W. S. Mitchell
President
and Chief Executive Officer

G. H. Parker
Senior Vice President

W. Maurice Young
Chairman of the Board
and Chief Executive Officer
Finning Tractor and Equipment Company, Ltd.
Vancouver, B.C. (elected 2/20/74)

OFFICERS

W. S. Mitchell*
President
and Chief Executive Officer

Henry B. Clay*
Senior Vice President—Retail

Clifford L. Gant*
Controller

Malcolm P. Grover*
Senior Vice President
Personnel, Public Affairs, Industrial Relations and Economic Research

Lorenzo N. Hoopes*
Senior Vice President
Supply Operations

Philip G. Horton*
Vice President
Real Estate, Construction and Engineering, Operations Services

James M. McGinty*
Vice President and Treasurer

G. H. Parker*
Senior Vice President—Retail

Quentin Reynolds*
Chairman of the Board

Robert J. Van Gemert*
Vice President and Secretary
General Counsel

Jack L. Anderson
Vice President
Retail Division Manager

Paul A. Baumgart
Vice President
Corporate Economist

John Bell
Vice President
Retail Division Manager

L. A. Bianco
Vice President
Retail Division Manager

F. W. Bird
Vice President
Supply Division Manager

Gerald E. Brown
Vice President
Advertising and Market Research

Carey A. Ford
Vice President
Retail Division Manager

Loyd J. Fox
Vice President
Supply Division Manager

Henry J. Frank
Vice President
Retail Division Manager

Floyd H. Gifford
Vice President
Regional Manager

Frank J. Glasgow
Vice President
Retail Division Manager

Edward N. Henney
Vice President
Supply Division Manager

Robert L. Jaynes
Vice President
Regional Manager

Gordon W. Jones
Vice President
Real Estate

Horace A. Justice
Vice President
Regional Manager

Milton K. Kegley
Vice President
Washington Representative

Neils V. Lawson
Vice President
Management Information & Services

W. W. Liedtke
Vice President
Retail Division Manager

Robert E. Livesay
Vice President
Retail Division Manager

Dale L. Lynch
Vice President
Retail Division Manager

Robert M. Lyness
Vice President
Retail Engineering

Fred E. MacRae
Vice President
Retail Division Manager

Peter A. Magowan
Vice President
Retail Division Manager

William H. Maloney
Vice President
Retail Division Manager

Pete P. Martin
Vice President
Retail Division Manager

Harold T. Nelson
Vice President
Supply Division Manager

Calvin P. Pond
Vice President
Public Affairs

John H. Prinster
Vice President
Grocery Merchandising

Sam E. Raburn
Vice President
Retail Division Manager

John L. Repass
Vice President
Retail Division Manager

James A. Rowland
Vice President
Regional Manager

Walter J. Schoendorf
Vice President
Supply Division Manager

Earl W. Smith
Vice President
Regional Manager

Eldon W. Starkey
Vice President
Retail Division Manager

Harry Sunderland
Vice President
Real Estate Law and Finance

R. E. Templeman
Vice President
Retail Division Manager

Ralph C. Ward
Vice President
Retail Division Manager

John W. Warthan
Vice President
Retail Division Manager

Herman F. Weber
Vice President
Industrial Relations

Basil M. Winstead
Vice President
Regional Manager

Forrest Woolery
Vice President
Retail Division Manager

Alan W. Young
Vice President
Supply Division Manager

*Executive Officers of the Company

REGIONS AND DIVISIONS

At year's end Safeway operated 2,364 stores in the United States, Canada, the United Kingdom, West Germany, and Australia (see map on back cover). U.S. Division Managers report to their respective Regional Managers; Canadian and overseas Division Managers report to the President. The Manager of the Northern California Region (a Senior V.P.) also reports to the President, as does Henry B. Clay, Senior Vice President in charge of the other six Regions.

NORTHERN CALIFORNIA REGION, G. H. Parker
- SACRAMENTO DIVISION, Frank J. Glasgow, 93 Stores
- SAN FRANCISCO DIVISION, L. A. Bianco, 210 Stores

NORTHWEST REGION, Earl W. Smith
- PORTLAND DIVISION, Fred E. MacRae, 93 Stores
- SEATTLE DIVISION, Dale L. Lynch, 119 Stores
- SPOKANE DIVISION, William H. Maloney, 39 Stores

ROCKY MOUNTAIN REGION, Floyd H. Gifford
- BUTTE DIVISION, Sam E. Raburn, 36 Stores
- DENVER DIVISION, Eldon W. Starkey, 148 Stores
- SALT LAKE CITY DIVISION, Pete P. Martin, 62 Stores

SOUTHWEST REGION, Robert L. Jaynes
- LOS ANGELES DIVISION, John L. Repass, 168 Stores
- PHOENIX DIVISION, Henry J. Frank, 49 Stores
- SAN DIEGO DIVISION, John W. Warthan, 71 Stores

SOUTHERN REGION, Horace A. Justice
- DALLAS DIVISION, Carey A. Ford, 213 Stores
- EL PASO DIVISION, Robert E. Livesay, 54 Stores
- OKLAHOMA CITY DIVISION, R. E. Templeman, 70 Stores

MIDWEST REGION, James A. Rowland
- KANSAS CITY DIVISION, W. W. Liedtke, 99 Stores
- LITTLE ROCK DIVISION, Jack L. Anderson, 77 Stores
- OMAHA DIVISION, Forrest Woolery, 85 Stores
- TULSA DIVISION, Peter A. Magowan, 51 Stores

EASTERN REGION, Basil M. Winstead
- RICHMOND DIVISION, Ralph C. Ward, 73 Stores
- WASHINGTON, D.C. DIVISION, John Bell, 161 Stores

CANADA
- PRAIRIE DIVISION, A. G. Anselmo, 114 Stores
- TORONTO DIVISION, N. M. Knebel, 13 Stores
- VANCOUVER DIVISION, T. Milburn, 94 Stores
- WINNIPEG DIVISION, W. F. Griffiths, 50 Stores

OVERSEAS
- AUSTRALIA DIVISION, J. W. R. Pratt, 40 Stores
- EUROPE DIVISION, John S. Kimball,
  - 67 Stores in United Kingdom
  - 15 Stores in West Germany

EXECUTIVE OFFICES
Fourth and Jackson Streets, Oakland, California 94660

TRANSFER AGENTS
The Chase Manhattan Bank (National Association), New York, New York and the Crocker National Bank, San Francisco, California

REGISTRARS
The Chase Manhattan Bank (National Association), New York, New York
and The Bank of California, National Association, San Francisco, California

ACCOUNTANTS
Peat, Marwick, Mitchell & Co.

ANNUAL MEETING
The 1974 Annual Meeting of the Common Stockholders will be held on May 21, 1974. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 8, 1974. This Annual Report does not constitute part of the proxy soliciting material.

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